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Summary: City of San Antonio, Texas

Primary Credit Analyst(s): Horacio Aldrete-Sanchez, Dallas (1) 214-871-1426; horacio_aldrete@standardandpoors.com
Secondary Credit Analyst(s): Theodore Chapman, Dallas (1) 214-871-1401; theodore_chapman@standardandpoors.com

Credit Profile
AFFIRMED
Outstanding Hotel Occupancy Tax Bonds, Various Series
AAA / A+ (SPUR)

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' Standard & Poor's underlying rating (SPUR), and stable outlook, on San Antonio, Texas' hotel occupancy tax subordinate-lien revenue refunding bonds outstanding and prior-lien hotel occupancy tax revenue bonds outstanding.

The SPUR reflects:

- San Antonio's strong regional convention, business, and tourism base;
- Adequate legal provisions, including an additional bonds test that requires a 1.5x maximum annual debt service (MADS) coverage on existing and proposed debt and a closed lien on the prior-lien bonds; and
- Strong debt service coverage levels on both the prior- and subordinate-lien bonds.

Credit risks associated with revenues derived from taxes on discretionary and potentially cyclical items, such as hotel rooms, preclude a higher rating.

A prior-lien pledge of the revenues from the city's 5.25% and 1.75% hotel occupancy tax, as well as the 2.00% expansion hotel occupancy tax, secures the 1996 bonds. A subordinate-lien pledge of the revenues from the city's 5.25% and 1.75% hotel occupancy tax secures the series 2004A and 2004B bonds. The city used proceeds from this issuance to refund a portion of its series 1996 prior-lien bonds outstanding and fund improvements to the Henry B. Gonzalez Convention Center.

San Antonio ('AA+' GO debt rating), with about 1.2 million residents, is Bexar County's seat and the nation's ninth-largest city. The city's economy is diverse with a strong presence in the biotechnology, tourism, trade, telecommunications, and military sectors. In addition, San Antonio's designation as the site for a new Toyota Motor Corp. truck manufacturing facility, which is scheduled to be complete by the end of 2005, has brought substantial growth to the south portion of the San Antonio MSA.

The hospitality industry is one of the main components of San Antonio's economy with an estimated effect of $7.1 billion and 86,380 jobs with an annual payroll of roughly $1.37 billion. The city is home to a broad base of hotels that offer an estimated 29,599 rooms; the average occupancy rate was almost 66% in 2004. Despite increased competition, economic downturns, and the adverse effects the terrorist attacks of Sept. 11, 2001, had on the hospitality industry, hotel occupancy rates, average daily rates, and room nights have remained stable over the past five years. A solid portion of the city's recent hotel industry growth has occurred in the downtown and River Walk areas where eight of the 10 leading hotel tax revenue generators are located. These hotels accounted for an estimated 36% of total hotel occupancy tax revenues in fiscal 2004.

Despite declines of 2.3% in fiscal 2002 and 0.8% in fiscal 2003, hotel tax revenues have increased by 11% over the past five years. In fiscal 2004, pledged revenues increased by 3.8% and provided a very strong 3.8x MADS coverage on the 1996 prior-lien bonds. Coverage on the subordinate-lien bonds, calculated at the maximum contractual rate of 10% for the variable portion of the debt, was also strong with 2004 available revenues providing 1.4x MADS coverage.

Outlook

The stable outlook reflects the expectation that regional convention and tourism activity will continue to provide a strong and growing base for pledged revenues. The stable outlook also reflects a limited amount of future debt.

Legal Provisions/Debt

Legal provisions are adequate and feature an additional bonds test that requires 1.5x historical MADS coverage and a debt service reserve funded at the combined MADS of the prior- and subordinate-lien bonds. About 57% of the city's hotel tax revenue bonds outstanding are variable-rate debt. According to the ordinance authorizing the variable-rate bonds, a failed remarketing does not constitute an event of default. In addition, the city has not entered into any swaps to synthetically fix the variable-rate portion of the bonds.

The city does not plan to issue additional subordinate-lien debt in the medium future. A subordinate-lien pledge of the revenues derived from the city's 2% expansion hotel occupancy tax will secure the $207 million in projected bonds the city will issue to fund the construction of a convention center hotel.

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